

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**June 21, 2011**

### **Call to Order and Roll Call**

The Capital Projects and Bond Oversight Committee met on Tuesday, June 21, 2011, at 1:00 p.m., in Room 169 of the Capitol Annex. Representative Jim Glenn, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Jim Glenn, Co-Chair; Senators Tom Buford and Julian M. Carroll; Representative Steven Rudy.

Guests: Representatives John Will Stacey and Jim Gooch; Bob Wiseman, University of Kentucky; John Hicks, Governor's Office of Policy Management; Winn Turney, Department of Aviation; Scott Shannon, Capital City Airport Division; Charles Bush, Division of Real Property; Katie Smith, Cabinet for Economic Development; Brett Antle, Office of Financial Management; and Tom Denton, Murray State University.

LRC Staff: Kristi Culpepper and Samantha Gange.

### **Approval of Minutes**

Representative Rudy made a motion to approve the minutes of the May 17, 2011, meeting. The motion was seconded by Senator Carroll and approved by voice vote.

### **Correspondence Items**

Representative Glenn asked Kristi Culpepper, Committee Staff Administrator, to discuss correspondence items. Ms. Culpepper said members' folders contained two items of correspondence. The first item of correspondence was a letter from the University of Kentucky (UK) notifying the committee that the university has initiated the Renovate and Upgrade Commonwealth Stadium project. This project will replace video boards at Commonwealth Stadium at a planned scope of \$6.25 million, funded entirely with private funds.

The second item of correspondence was a notice of advertisement for leased space for the Cabinet for Health and Family Services. The cabinet is seeking replacement space for an existing lease in Hardin County. The proposed lease would provide 32,196 square feet of office space with 167 reserved parking spaces.

### **Information Items**

Ms. Culpepper said members' folders contained three information items. The first information item was a report detailing the debt service the School Facilities Construction Commission has paid on behalf of school districts for fiscal years 2005 through 2010. The report also included the percentages of the state total for each district, enrollment numbers, and funding and enrollment rankings. The last two items were the staff and bond market updates.

### **Report of Unbudgeted Project from UK**

Representative Glenn asked Bob Wiseman, Vice President for Facilities Management, UK, to present one item related to an unbudgeted project. Mr. Wiseman said UK is requesting approval of the Renovate Shively Sports Center project. The project scope is \$950,000 in private funds. This project will renovate the Shively Sports Center locker, shower, restroom, and lounge facilities for the men's and women's track and baseball teams. The UK Board of Trustees approved the project at its May 3, 2011 meeting and the Council on Postsecondary Education approved the project on June 10, 2011.

In response to a question from Representative Glenn, Mr. Wiseman said the funds come in small donations from various private donors and go into a pool of private funds for the UK Athletic Association.

Senator Leeper made a motion to approve the unbudgeted project for UK. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

### **Report of Pool Allocation over \$600,000 from the Finance and Administration Cabinet**

Representative Glenn asked John Hicks, Deputy Director, Governor's Office of Policy Management, to present two items. Mr. Hicks said the first item was a report of a pool project in excess of \$600,000 from the 2010-2012 Land Acquisition Pool for the Tourism, Arts, and Heritage Cabinet, Department of Fish and Wildlife Resources for the purchase of a 351-acre tract located in Harrison County. The appropriation is \$1,450,000. This acquisition is in the target area outlined in the Department's Strategic Plan to provide increased opportunities for public access for purposes of hunting, fishing, and outdoor recreation. No committee action was needed.

### **Unbudgeted Capital Project from the Finance and Administration Cabinet**

Mr. Hicks said the second item was an unbudgeted capital project for the Transportation Cabinet, Department of Aviation for a Privately Constructed Hangar. The Department of Aviation has issued a Request for Proposal (RFP) seeking a private developer to lease land at the Capital City Airport in Frankfort and construct a new hangar on the property. The developer / tenant would lease the land from the state for an initial period of 20 years, with two 5-year renewal options, and would be solely

responsible for the cost of constructing the facility. At the end of the lease, all facilities would become property of the state. The scope of the request is \$700,000, but may require adjustment once a contract award has been made.

In response to a question from Representative Glenn, Mr. Hicks said at the end of the lease term the state would take full ownership of the assets.

Senator Buford asked who would be using the facility and what the annual lease cost would be. Mr. Hicks said that information would not be available until the RFP process was completed and all bids were received.

Senator Carroll asked if there were representatives from the Department of Aviation to further discuss the project. Winn Turney, Commissioner, Department of Aviation; and Scott Shannon, Assistant Director, Capital City Airport Division, came to the table to discuss the project. Mr. Turney said there are private parties that are interested in the project and the winning bidder would be responsible for all investments related to constructing the hangar.

In response to a question from Senator Carroll, Mr. Shannon said the hangar being constructed for this project is not the same as the hangar that will be constructed for educational purposes. He indicated that those would be two separate projects.

Senator Carroll asked if the committee would have to give further approval once the bids are received [unless the bid is over the requested project scope]. Mr. Hicks said the committee would not have to give further approval. Senator Carroll said he would like a report back once the RFP process was completed and the award has been made.

Representative Glenn said the motion to approve the project would be made contingent upon the Finance and the Administration Cabinet and the Department of Aviation reporting back to the committee the results of the winning bid as well as all terms of the lease and costs associated with the project.

Senator Carroll made a motion to approve the unbudgeted capital project for the Department of Aviation contingent upon receiving all results related to the RFP. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

### **Amortization of Leasehold Improvements Exceeding \$50,000 from Division of Real Property**

Representative Glenn asked Charles Bush, Director, Division of Real Property, Finance and Administration Cabinet, to report on an item related to leasehold improvements. Mr. Bush said the Department of Public Advocacy (DPA) in Fayette County (PR-5095) has submitted a request for additional space to accommodate new staff for the Eastern Region Capital Offense Unit. The DPA is currently housed in a state-

owned facility that requires significant repairs and improvements that exceed \$1,000,000. Suitable space was requested and the lessor advised that they are willing to lease the additional space at terms and conditions that exceed those associated with the current lease. This lease modification would decrease the rental rate by \$.50 (from \$15.00 to \$14.50) per square foot, including utilities, add an additional 6,373 square feet of office space, as well as an additional four parking spaces. The annual rent would increase from \$88,964 annually through June 30, 2018.

In response to a question from Senator Buford, Mr. Hicks said that the DPA was shielded from reductions in the last biennium budget. The state-owned facility that the DPA is currently housed in will be disposed of because of its condition.

Senator Buford asked if there were other state-owned facilities that would be disposed of. Mr. Bush responded affirmatively.

Representative Rudy made a motion to approve the lease modification for the DPA. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

#### **Kentucky Infrastructure Authority (KIA) Grants**

Representative Glenn asked Ms. Culpepper to report the KIA grants. Ms. Culpepper indicated that members' folders contained one coal grant from the 2002-04 budget and two non-coal grants from the 2008-10 budget. No further committee action was needed.

#### **Economic Development (EDB) Pool Grants**

Representative Glenn asked Katie Smith, Deputy Commissioner, Department of Financial Incentives, Cabinet for Economic Development, to present several items related to EDB grants. Ms. Smith said the cabinet is requesting approval of a new \$500,000 EDB grant for the City of Harrodsburg in Mercer County for the benefit of Corning Incorporated to offset the cost of expanding its existing manufacturing facility by 30 percent. The expansion is necessary to meet demand for glass used in portable and handheld electronic devices. Pursuant to the EDB grant agreement, the company must create 80 new, full-time jobs for Kentucky residents with an average hourly wage of \$25.00, including benefits. Additionally, the company also agrees to maintain these jobs, along with its existing workforce of 323 full-time positions, for three years.

Ms. Smith said the second request was a \$500,000 EDB grant for the City of Harrodsburg in Mercer County for the benefit of Hitachi Automotive Systems Americas, Inc. to offset the cost of a 153,000 square-foot expansion to the company's existing 393,000 square-foot manufacturing facility. The expansion is necessary to manufacture new high-pressure fuel pump and automotive electronic products. Pursuant to the EDB grant agreement, the company must create 135 new, full-time jobs for Kentucky resident

with an average hourly wage of \$12.50, excluding benefits. Additionally, the company also agrees to maintain these jobs, along with its existing workforce of 626 full-time positions, for three years.

Representative Rudy made a motion to approve the two EDB grant requests. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

Ms. Smith said the third request was a \$500,000 EDB grant for the City of Harrodsburg in Mercer County for the benefit of Wausau Paper Towel and Tissue, LLC. to offset the cost of expanding its existing 850,000 square-foot manufacturing facility by 187,200 square feet. Pursuant to the EDB grant agreement, the company must create 76 new, full-time jobs for Kentucky residents with average annual wage of \$46,000, excluding benefits. Additionally, the company also agrees to maintain these jobs, along with its existing workforce of 389 full-time positions, for three years.

The Kentucky Economic Development Finance Authority (KEDFA) originally approved this grant with a retention requirement of 397 jobs. The company has since requested that KEDFA honor the requirement it would have under Kentucky Business Investment program, which would be 389 jobs.

Senator Carroll made a motion to approve the EDB grant contingent upon KEDFA approving the amended jobs requirements. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

#### **New Bond Issue – Murray State University**

Representative Glenn asked Brett Antle, Deputy Director, Office of Financial Management, to present several items. Mr. Antle said the first item was a new bond issue for Murray State University General Receipts Bonds 2011 Series A, General Receipts Refunding Bonds 2011 Series B (Bank Qualified), General Receipts Refunding Bonds 2011 Series C (Non-Bank Qualified). The par amount of the bonds is \$28,740,000. Proceeds from this bond issue will provide new money to redesign and rebuild the interior finishes, doors, door frame systems; replace windows; replace roofing; upgrade mechanical, electrical, and plumbing distribution systems; and restore bedrooms and support areas of the 45-year-old Elizabeth Hall to new condition. This transaction will also refund the university's outstanding Series M, N, O, P, and Q Housing and Dining Bonds at an estimate net present value savings of negative \$198,399.

Tom Denton, Vice President of Finance, Murray State University, said the university has five outstanding housing and dining bond issues that are under the old indenture from the 1960's. He said Murray State is the last public university that has these bonds outstanding. He said the old housing and dining bonds require the university to have a debt service reserve as well as a maintenance reserve. The university would like to eliminate these reserves.

In response to a question from Senator Buford, Mr. Antle said the net loss from this bond issue is approximately \$200,000 on a present value basis. However, the non-economic benefits to the university allowing them to eliminate the reserves outweighs the net loss. Mr. Denton said the university would like to keep the negative net present value less than two percent.

Senator Leeper made a motion to approve the new bond issue for Murray State. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

#### **New Bond Issue – KEDFA**

Mr. Antle said the second item was a new bond issue for KEDFA Healthcare Facilities Revenue Bonds, Series 2011 (Masonic Homes Independent Living II, Inc.). The par amount of the bonds is not to exceed \$50,000,000. Proceeds from this conduit bond issue will be used to acquire, construct, and equip independent living health care facilities on the Masonic Homes campus at 3701 Frankfort Avenue in Louisville.

Senator Buford made a motion to approve the new bond issue for KEDFA. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

#### **Follow-up Report for Previously Approved Bond Issue**

Mr. Antle said the third item was a follow-up report for Kentucky Housing Corporation (KHC) Housing Revenue Bonds Series A (Non-AMT), Series C, Subseries C-3 (Non-AMT). Proceeds from this bond issue will be used to finance single-family mortgage loans for low-to-moderate income households. No committee action was required.

#### **School Bond Issues**

Mr. Antle reported five school district bond issues with School Facilities Construction Commission (SFCC) debt service participation for Ashland Independent in Boyd County, Campbell County, Frankfort Independent in Franklin County, Henry County, and Pike County.

Senator Leeper made a motion to approve the new SFCC bond issues. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Glenn asked Ms. Culpepper to report new local school district bond issues. Ms. Culpepper said there were three local school district bond issues with 100 percent locally-funded debt service for Barren County, Harlan County, and Pike County.

With there being no further business, Senator Carroll made a motion adjourn the meeting. The motion was seconded and the meeting adjourned at 1:50 p.m.